

# Further Discussion on Determinants of cooperation intensity among local governments in promoting Foreign Direct Investment (FDI) within Vietnam's Northern Key Economic Zone (KEZ)

Kieu Quoc Hoan<sup>1\*</sup>

<sup>1</sup>Thuongmai University, Hanoi, Vietnam. Email: hoankq@tmu.edu.vn\*

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## ABSTRACT

This study builds on the interplay of perceptions and behaviors of local governments, particularly in their collaborative efforts to mobilize international capital. The theoretical foundation integrates insights from institutional collective action, the theory of reasoned action (TRA), the theory of planned behavior (TPB), and risk aversion frameworks to construct a comprehensive explanation of the dynamics involved. Study suggested that the local governments should strengthen the mutual cooperation among the local governments in the zone. Intensification level of cooperation among local governments in FDI attraction in the Northern KEZ of Vietnam at present is not as high as expected.

**Keywords:** Cooperation; Local government; Key Economic Zone (KEZ); Foreign Direct Investment (FDI); Northern region.

## 1. Introduction

Recently, attracting FDI has become a strategic priority for developing economies, with many nations liberalizing their FDI regimes to enhance competitiveness.

The key insights include:

- Role of Perceptions and Expectations:** The perceived gaps between expected and actual benefits, costs, and risks significantly influence cooperation intensity. Governments are more likely to collaborate when they perceive that the benefits outweigh the associated costs and risks.
- Importance of Institutional Structures:** Institutional characteristics, such as trust, reciprocity, and accountability, play a critical role in shaping cooperative behaviors. Formal agreements and transparent governance mechanisms can enhance trust and reduce transaction costs.
- Behavioral Determinants:** Attitudes, beliefs, and perceptions of local government officials influence their willingness to cooperate. External factors, such as resource availability and stakeholder support, also shape cooperative behaviors.
- Risk Management:** Addressing perceived risks and uncertainties through trust-building measures, monitoring systems, and dispute-resolution frameworks is essential for fostering cooperation.

## 2. Previous Studies and Frameworks

### 2.1. Theory of Reasoned Action and Theory of Planned Behavior

The TRA and TPB provide behavioral frameworks for understanding the factors influencing cooperation intensity. TRA posits that intention is the primary determinant of behavior, driven by attitudes and subjective norms.

Feiock (2013) integrates these insights within the ICA framework, arguing that the perceived risks and uncertainties associated with cooperation must be managed to foster collaborative efforts. Mechanisms such as formal agreements, monitoring systems, and dispute resolution frameworks can mitigate these risks, enabling governments to pursue shared goals with greater confidence.

This study integrates the ICA framework, TRA, TPB, and risk aversion theory to provide a comprehensive understanding of the determinants of cooperation intensity among local governments in FDI attraction.

A report by the Atlantic Council (2024) emphasized the importance of economic and political freedoms in attracting FDI. The study indicated that countries with higher levels of economic and political freedom are more successful in attracting FDI. The report also noted that a lack of trust in the institutional frameworks of neighboring areas can hinder cooperation, explaining why the gap between expected and perceived cooperation risks may negatively affect the intensity of cooperation among local governments.

We see more in below table:

**Table 1.** Summary of related studies

Authors	Year	Content, résultats
Ajzen	1991	Extends this framework through TPB, incorporating perceived behavioral control as a critical factor. TPB emphasizes that external factors, such as institutional constraints or resource availability, shape the intentions and behaviors of governments.
LeRoux & Carr	2007	Echo this sentiment, suggesting that governments with insufficient resources often partner with higher-tier governments to gain access to resources and thereby bridge the gap between expected and perceived benefits.
Kim et al., 2020; Nascimento et al., 2022; Xin & Chen, 2023	2020 2022 2023	Recent studies have expanded these theoretical foundations by incorporating factors such as institutional flexibility, transparency, and behavioral control, which are essential in explaining local governments' cooperative behavior in contemporary governance contexts.
LTV Nga et al.	2021	FDI promotes trade balance in case of Vietnam.

(Source: Author Synthesis).

### 3. Methodology and data

Data was collected from multiple provinces and cities in the Northern Key Economic Zone, including Hanoi, Quang Ninh, Hai Phong, Hai Duong, Bac Ninh, Vinh Phuc, and Hung Yen. The data was provided by local government agencies managing and promoting FDI in these areas.

We test the validity of data set for factor analysis in the case of independent variables in the model of Gap of Benefits, Gap of Costs and Gap of Risks. Test statistics are reported in Table 1. KMO value close to 1 indicates that

the pattern of correlation is relative compact and factor analysis should yield distinct and reliable factors. For these data, the value of KMO is 0.911, a value high enough to be considered being superb. We are absolutely confident that the use of factor analysis technique is suitable for this data. Bartlett's Test tests the null hypothesis that the original correlation matrix is an identity matrix. For the data we have, Bartlett's Test is highly significant with  $p < .01$ . We conclude that the using of factor analysis for testing validity of scales in this study is appropriate.

We then test the reliability of the scales of the three factors via applying Cronbach's alpha test which shows how well a set of variables measures the same underlying construct. Results reports Cronbach's alpha for measurement scale of Gap of Benefits. In this study, the alpha coefficient for the 6 items is .876, suggesting that the items have relatively high internal consistency.

In other words, the removal of any observed variable will not improve the internal consistency of the measurement scale of Gap of Benefits. Therefore, we would not want to remove these items. The measurement scale of 6 items of Gap of Benefits that we have is acceptable.

Hypotheses follows:

**H1:** *The greater the gap between the expected benefits and the perceived current benefits of cooperation, the more likely a local government will intensify its cooperation with other governments in investment promotion*

**H2:** *The smaller the gap between the expected transaction costs and the perceived current transaction costs, the more likely a local government will intensify its cooperation with other governments in investment promotion.*

**H3:** *The greater the gap between the expected cooperation risks and the perceived current risks, the more likely a local government will intensify its cooperation with other governments in investment promotion.*

**H4:** *The greater the gap between expected and perceived cooperation risks, the greater the gap between expected and perceived transaction costs.*

**Figure 1.** Hypotheses in study

Recent findings further suggest that governments evaluate cooperation not just in terms of immediate economic returns but also regarding long-term policy synergies and international positioning (Kim et al., 2020; McGuire, 2022).

#### 4. Main findings

As we target, it is necessary to take multiple criteria into consideration and to evaluate the model fit on the basis of various measures simultaneously. In general, various measures of the model fit point to same conclusion about the extent to which the model actually matches the observed data, except the p-value.

Our findings are consistent with that in the studies of Arrow (1970) and McGuire (2005). It means that there is a close relationship between the benefits and the level of risks to get such benefits. Before deciding whether to cooperate or not, local governments pay close attention to the expected risks and calculate how much they will have to spend to control those risks. The too high gap of risks will lead to the high gap of costs and reduce the propensity and intensification level in cooperation among local governments. Shrestha & Feiok (2011) suggest that the gap of risks plays the most important role in the propensity and intensification level of cooperation. This is absolutely true for the current situation in Vietnam's Northern KEZ. For fields where local governments have not yet participated in the cooperation, the risks to which local governments are paying special attention when taking part in the cooperation are the gap of risks that can cause a lot of unexpected transaction costs and the gap of risks which threaten their current benefits. Local governments only have the propensity and increase the intensification level in the sectors and fields that can bring them many direct and short-term benefits with the lowest gap of risks and costs. In contrast, they will not care about the fields which are not likely to attract FDI and which has the high gap of risks and costs.

**Table 2.** Validity of Research Hypothesis in the Research Model on Determinants of Propensity to intensify the Cooperation among Local Governments

Hypothesis	Test value	Result
H1: Propensity to intensify of cooperation <--- Gap of benefits	0.02	Ho: Not rejected <i>Invalid</i>
H2: Propensity to intensify of cooperation <--- Gap of costs	-0.007	Ho: Not rejected <i>Invalid</i>
H3: Propensity to intensify of cooperation <--- Gap of risks	-0.141***	Ho: Rejected <i>Valid</i>
H4: Gap of costs <--- Gap of risks	0.715***	Ho: Rejected <i>Valid</i>

\*\*\* Statistically significant at the 1% level; \*\* Statistically significant at the 5% level; \* Statistically significant at the 10% level.

## 5. Discussion and Conclusion

Aware of the importance of strengthening the involvement in cooperation in creating a business environment highly appealing to foreign investors, the majority of officers and employees of local governments in the Northern KEZ suggested that the local governments should strengthen the mutual cooperation among the local governments in the zone. Intensification level of cooperation among local governments in FDI attraction in the Northern KEZ of Vietnam at present is not as high as expected. The majority of the survey respondents responded that the intensification level result should be better than at present in all their aspects of intensity in cooperative activities, intensity in manager's interest and commitment and intensity in finance and outcome of cooperation.

Moreover, Gaps of expected and perceived risks have an anti-orthodromic effect on the cooperative intensity and intensification level of cooperation in cooperative activities. In the opinion of survey respondents, expected cooperation risks in reality are better than expected and have no negative impact on intensity and intensification level of cooperation among local governments in the Zone. Between gap of gap of expected and perceived risks and gap of expected and perceived cost all there is an orthodromic relationship and all have an impact on the cooperative intensity and intensification level of cooperation among local governments in the Northern KEZ of Vietnam.

Our research results are highly practical, especially for the Northern KEZ of Vietnam. However, due to limited research time and knowledge, this study still has some shortcomings. Some issues related to determinants of intensity of cooperation among local governments in FDI promotion have not been really studied in depth. Therefore, we hope that further researches will focus more on the various aspects of this issue.

## Declarations

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### Competing Interests Statement

The author has not declared any conflict of interest.

### Consent for publication

The author declares that he consented to the publication of this study.

### Authors' contributions

Author's independent contribution.

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